

# **DEPARTMENT OF AGRICULTURAL ECONOMICS AND EXTENSION**

## **WORKING PAPER**

Trader Perceptions of Constraints on  
Expanding Agricultural Input Trade  
Among Selected SADCC Countries

by

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DEPARTMENT OF AGRICULTURAL ECONOMICS & EXTENSION  
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# TRADER PERCEPTIONS OF CONSTRAINTS ON EXPANDING AGRICULTURAL INPUT TRADE AMONG SELECTED SADCC COUNTRIES

## ABSTRACT

Many analysts have argued that potential for expanding intra-SADCC agricultural trade is limited. This is mostly because they have conceptualised intra-SADCC trade in a static, rather than a dynamic context. There are significant differences between the static notion of comparative advantage - that differences in comparative costs of production among people, firms, areas and countries at any one moment in time determine trade - and the dynamic notion, where the process of trading will itself create opportunities for different groups to specialise and to take advantage of economies of scale and improved capacities to produce products. In the dynamic context, trade enables effective demand to grow and production to change over time.

Discussions with both key informants and traders interviewed in this study reveal that a major reason for the low productivity in SADCC national economic systems is a lack of effective demand. This means that SADCC agricultural input and product markets are too thin to support levels of specialisation and scales of production which result in high productivity. The thinness of SADCC agricultural input and product markets does not suggest a protectionist policy among SADCC economies. Rather, it suggests the opposite. To expand the potential market and effective demand, SADCC member states need to reduce barriers to starting a dynamic trade process.

The overall objective of this study was to go to traders themselves to elicit their views on what is needed to get trade moving along a more dynamic growth path. This was accomplished through direct contact with 85 agricultural commodity import and export firms, and parastatals in three SADCC countries who participated in a trader survey over an 11 month period. Information was also collected through key informant surveys of ministries of agriculture, trade, commerce and industry, finance and economic planning, donor agencies, banks, credit insurance agencies, and trade associations connected with SADCC's regional and international trade in agricultural products.

Firms interviewed in this study report a wide range of farm inputs and products with significant potential to expand intra-SADCC trade. Trader responses suggest that there is significant potential to expand intra-SADCC trade in products based on appropriate technology. The industrial world has little incentive to incur investments necessary to develop specialised technology for the SADCC region. Thus, firms interviewed believe that a potential for intra-regional trade lies in identifying what technology is appropriate, and developing economies of scale in the production of these goods to reduce input acquisition costs to farmers.

Some of the trader perceived barriers to increasing intra-regional agricultural trade - policies and practices of SADCC governments, and high transactions costs - appear to be easier to deal with in the short-run than problems of lack of effective demand and limited capacity to supply markets. Policies and practices represent especially important opportunities to expand trade because it is within the power of government to change them.

Respondents indicate that because SADCC countries are expensive sources of imports, expanded SADCC trade will only benefit member states if they can settle transactions in national currencies. Thus, respondents believe that mechanisms must be established to promote multilaterally balanced intra-regional trade. This will have to involve trade in a broader sense, including services. Traders suggest that one practical interim measure to stimulate trade would be organising reciprocal trade through bilateral relationships. Traders believe that for this to succeed, governments must involve the business community in all deliberations.

Finally, firms interviewed believe that to expand trade, governments will have to better harmonise existing policies and practices by relaxing the numerous restrictions and removing much of the "red tape" on imports, exports, and financing intra-SADCC trade; tariffs; travel; and communications. In addition, the firms believe that SADCC governments need to give greater export incentives to exporting firms; and to introduce export credit insurance schemes.

## Acknowledgements

The author is indebted to the favourable responses and positive co-operation received from the officials of companies, parastatals and Government Departments that were interviewed in the study.

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# TRADER PERCEPTIONS OF CONSTRAINTS ON EXPANDING AGRICULTURAL INPUT TRADE AMONG SELECTED SADCC COUNTRIES

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# TRADER PERCEPTIONS OF CONSTRAINTS ON EXPANDING AGRICULTURAL INPUT TRADE AMONG SELECTED SADCC COUNTRIES

## I. INTRODUCTION

A major policy objective of SADCC governments is to promote intra-regional trade in order to accelerate developing the economies of member states, and reduce economic dependence on South Africa. Intra-SADCC trade has a potential role to play in increasing levels of commercial activity in member countries, and speeding up the transition from subsistence farming to commercial production. Trade enables different farm groups, regions, agro-industries, and countries to specialise in line with their comparative advantage. Another role of trade is to expand opportunities for SADCC states to develop specialisation in their economies. Trade enables firms to access a larger market and achieve greater economies of scale in producing, processing, transporting, and distributing commodities through increased throughput, and lower prices to consumers. An integrated SADCC market can provide greater income-earning opportunities which, if targeted at poor households, will help improve food security. Finally, to achieve the goal of economic independence, SADCC states need to develop closer transport and communication links to reduce the effects of say an embargo by South Africa closing its borders.

### A. Study Objectives

This report is based on an analysis of a trader survey and other primary data collected in three SADCC countries over an 11 month period to investigate the potential for and constraints on expanding trade in the SADCC region<sup>1</sup>. More specifically, the study examines three research questions:

- o What is the nature of current trade in agricultural commodities and inputs?
- o What are the barriers to increasing intra-SADCC agricultural trade?
- o What steps can SADCC governments and private firms initiate to promote food security through expanded intra-regional trade among the nine SADCC countries?

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<sup>1</sup>The data used in this paper were collected between December, 1987 and October, 1988 as part of an ongoing University of Zimbabwe/Michigan State University collaborative Food Security in Southern Africa Research Project.

## B. Justification of the Study

To date, most SADCC trade studies have focussed on identifying unexploited trade opportunities in food grain commodities and documenting the advantages of expanding trade in these grains. In contrast, little research has been conducted on trade in agricultural inputs. Thus, to the extent that the potential for, and direction, commodity trade depends on the performance of input delivery systems, there is a need to strengthen the information base of input commodities within the region; and to identify opportunities for and constraints on increasing their production and distribution through trade. This research is a step in that direction.

## C. Research Approach

Primary data were obtained from mail-out questionnaires and interviews with 85 agricultural commodity import and export firms, and parastatals in Botswana, Zambia, and Zimbabwe. The questionnaire elicited traders' perceptions on the potential for and constraints on increasing intra-SADCC agricultural trade. The trader questionnaire and interviews were supplemented with follow-up interviews with officials in the ministries of agriculture, trade, commerce and industry, finance and economic planning, donor agencies, banks, credit insurance agencies, trade associations and other key informants.

## D. Description of Sample Firms

The sample was drawn up from each country's importer and exporter directories. To obtain diversity, the sample was selected with the help of officials in the ministries of agriculture, trade, commerce and industry, trade associations and key informants. The survey included firms involved in formulating, assembling, manufacturing, food handling and processing, broking, financing, stocking, distributing, retailing, and wholesaling farm inputs and products traded within the SADCC region and between the SADCC region and the rest of the world.

Ninety-one percent of the sample firms traded more than one product. The most common agricultural and agro-based commodities handled were seed, fertilisers, agro-chemicals, agricultural tools, implements and machinery, grains and pulses; others were horticultural produce, dairy products, and processed food. Most firms reported the size of operations, relative to other companies in their lines of businesses, as medium to large. More than 60% of the firms had been operating for more than ten years, but have been exporting for fewer than five years (Tables 1, 2 and 3).

TABLE 1: Distribution of Sample Firms by Years of Operation

YEARS OF OPERATION	COUNTRY		ALL
	Zimbabwe	Zambia	
	Number of firms		
Less than 10	13	7	20
11-20	4	7	11
21-30	9	7	16
More than 30	14	3	17
Total	40	24	64

TABLE 2: Distribution of Sample Firms by Years Importing

YEARS IMPORTING	COUNTRY		ALL
	Zimbabwe	Zambia	
	Number of firms		
Less than 10	12	7	19
11-20	5	8	13
21-30	7	7	14
More than 30	12	2	14
Total	36	24	60

TABLE 3: Distribution of Sample Firms by Years Exporting

YEARS EXPORTING	COUNTRY		ALL
	Zimbabwe	Zambia	
Number of firms			
Less than 10	19	12	31
11-20	8	0	8
21-30	3	0	3
More than 30	4	0	4
Total	34	12	46

Respondents consistently reported similar opportunities for and constraints to expanding trade. Moreover, after completing ten interviews in each country, we found additional respondents provided little new information. This indicates that traders faced similar marketing opportunities and problems. Thus, although not randomly selected, the sample generated a surprising consistency of responses. The responses were cross-checked during interviews with officials in the various organisations cited above. These discussions generally supported traders' anecdotal evidence. Some traders supplied documents supporting their opinions.

## II. AN OVERVIEW OF AGRICULTURAL TRADE IN SADCC COUNTRIES

### A. An Overview of Researchers' Perceptions on Agricultural Trade

Intra-SADCC trade is poorly developed (about 5% of SADCC total trade). Several observers have suggested that there are opportunities to trade, but it appears that many price and non-price barriers limit increasing the trade.

Informants interviewed in this study identified five general problems requiring investigation to improve intra-SADCC trade. The first is lack of knowledge of commodities produced within the SADCC region. For political reasons, information on what is available within the region that can replace goods currently imported from South Africa is important to SADCC.

The second constraint is limited capacity to produce goods to meet existing demand. Analysis is required to examine factors inhibiting production and identify ways to increase production capacity. For example, if the constraint is a lack of inputs, the need is to identify which inputs are not available; why they are not being produced in sufficient quantity to meet requirements; and what could be done to remedy the situation.

The third constraint relates to foreign exchange shortages and government attempts to control foreign exchange. A shortage of foreign exchange is often talked about as if it were a permanent feature of SADCC countries. The fact that agricultural, mining, and industrial production activities in these countries have historically developed on imported inputs obtained from sources outside the region suggests that the foreign exchange problem is only a symptom - the underlying problem being the low level of technological specialisation of member economies. To break out of the poverty trap, SADCC governments need to devise ways of achieving greater specialisation in their economies. Opportunities to expand local production through import substitution exist. There is, however, a need to identify the type of enterprises, inputs and policies which will develop and support local industries. For example, if Mozambique can produce potash fertiliser relatively cheaply, private and public sector initiatives could be launched to supply Mozambique's agricultural sector requirements as well as those of other SADCC countries.

The fourth constraint is inefficiency of SADCC industries. Trade depends on the capacity of production units in a country to supply others. The production structure of SADCC industries is a very important factor determining a country's capacity to export. Historically, most SADCC countries have developed monopolistic and inefficient import substitution industries. Moreover these industries still depend, to a large extent, on spare parts and services obtained from sources outside the region. Because SADCC

manufacturing activities have tended to be inefficient in the past, they should not be allowed to continue functioning under protection. To increase competition in their industries and improve efficiency, SADCC states need to expand intra-regional trade. The impact of macro-economic policies on local production of inputs also needs careful consideration.

The fifth constraint is inability to utilise and extend existing information on fertiliser use, hybrid maize and sorghum cultural practices. Biological research has generated considerable technical information on these. This knowledge, however, is not being fully utilised by farmers. Extending this knowledge to farmers and between member countries through trade could be used to accelerate the development of agriculture in the region.

## **B. Importance of Agricultural Trade in SADCC Economies**

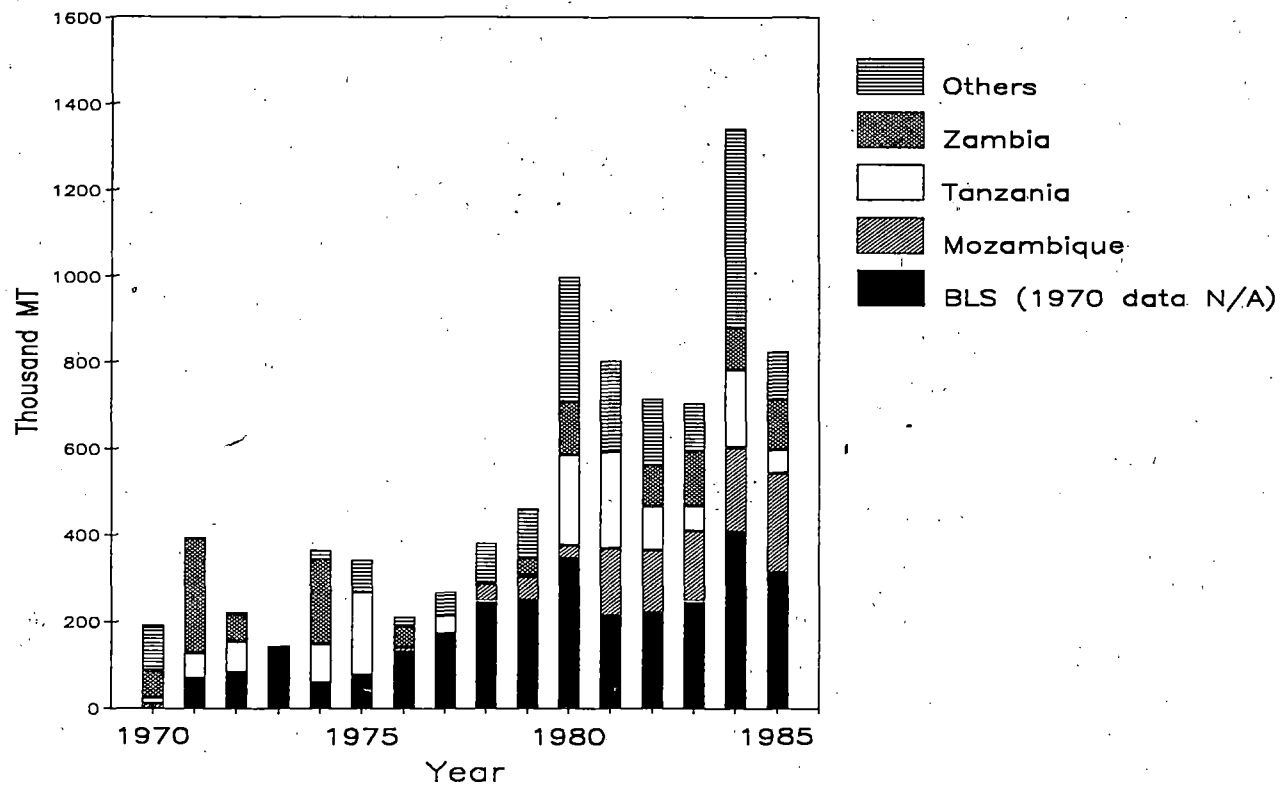
Foreign agricultural trade plays an important role in the overall growth and development of SADCC economies. All SADCC countries need foreign exchange to finance imports of capital items such as machinery, raw materials, and other goods (e.g. chemicals, fertilizers, fuels and packaging materials), which are necessary for both the functioning of their economies and for development through the export of agricultural commodities.

In recent years, the combination of high population and urban growth rates, drought, war, and unfavorable agricultural and macro-economic policies has caused staple food grain production to fall below national requirements in most SADCC states. As a result, SADCC countries are becoming increasingly dependent on food imports to bridge the gap between domestic food production and national requirements. For example, all SADCC states are net importers of wheat. With the exception of Malawi, all SADCC countries are also net importers of rice. Furthermore, in the drought years of 1980 and 1984, they all imported large quantities of maize (Figure 1).

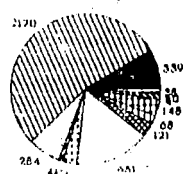
## **C. Crops and Livestock Produced by Member Countries**

The major food crops and livestock produced by the nine SADCC countries are similar (Figure 2). Cereals (maize, millet and sorghum), roots and tubers, oilcrops (groundnuts), and pulses are important staple crops grown primarily for domestic consumption. Beverages (coffee, tea and cocoa), and sugar are cash commodities produced mainly for export to traditional non-SADCC markets. The similarity of SADCC agricultural production patterns is partly due to similar agro-ecological conditions, cropping patterns, production and labour structures across the region. Also, SADCC agricultural production patterns resulted from the same political economy processes of market integration into the world economy during the colonial period.

Figure 1: SADCC Maize Imports by Country  
(1970 - 1985)



Source: UZ/MSU SADCC Cereals Trade Database.



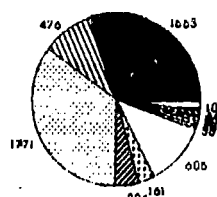
Angola



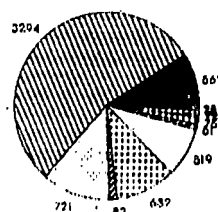
Botswana



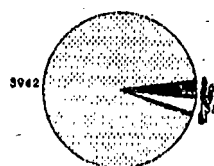
Lesotho



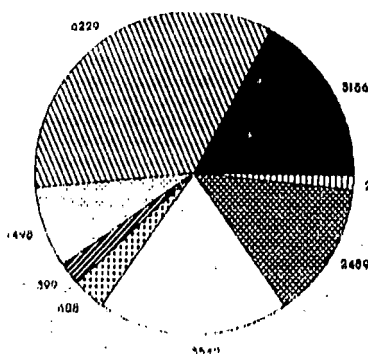
Malawi



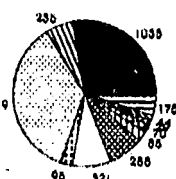
Mozambique



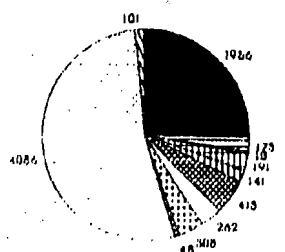
Swaziland



Tanzania



Zambia



## Zinn und Weiz

### Legend





These mainly encouraged cash crop production of commodities such as tobacco, tea, coffee, beef and cotton to supply European markets.

The proportions of basic food crops produced by each country, and the relative importance of each country as a producer vary. Of the nine countries, two (Angola and Mozambique) are being destabilised by South African sponsored-bandits. They cannot effectively implement food production programmes.

In Botswana food production is constrained by climatic conditions. Botswana produces only little quantities of sorghum. Lesotho is mountainous. These conditions limit food production. Swaziland has decontrolled land rights in favour of free enterprise, but it is still not self-sufficient in basic food grains. Swaziland, together with Botswana and Lesotho, are supplied mainly by South Africa through subsidised food imports.

In Zambia, soil and rainfall conditions are more favourable for agriculture than in Zimbabwe, but Zambia has implemented "inappropriate" agricultural policies, particularly with regard to pricing, extension, transport and marketing.

In Tanzania, certain parts of the country have a food grain surplus, but food cannot be economically moved to deficit areas because of poor road networks.

Malawi has achieved food self-sufficiency in basic grains through stimulating production on small-scale farms although in 1987, Malawi purchased 150 000 tonnes of maize from Zimbabwe to meet the food deficit - largely created by the influx of refugees from Mozambique.

Among SADC countries, Zimbabwe has a potential for being the maize basket of the region. Zimbabwe has achieved food self-sufficiency through stimulating production on commercial, small-scale and communal farms by means of favourable producer prices, in combination with improved extension, availability of credit, and market facilities, particularly in the communal sector. Production costs in Zimbabwe, however, are too high for Zimbabwe's food grain exports to effectively compete in regional markets. There is still scope for further increasing surplus food grain production in Zimbabwe by increasing yields on communal farms, given their relatively lower production costs. But the communal area food grain production is highly variable, depending on the rainfall. Food grain storage costs in Zimbabwe are also very high. In 1988, maize handling, storage and marketing costs were Z\$100 per metric tonne on a maize producer price of Z\$195 per tonne (Murphy, 1988). These high maize handling, storage and marketing costs led the Zimbabwean government to introduce a two-tier price system in 1987 for the

purchase of maize in an effort to discourage farmers from growing maize. This was when Zimbabwe achieved an unexportable maize surplus after two excellent harvests. The two-tier price system, however, was dropped because of poor rainfall in 1987. In 1988, the Zimbabwean Government, worried by the late rains, curtailed maize exports and undermined Zimbabwe's dependability as the regional maize basket.

Given the differing variability in the levels of food grain production and self-sufficiency among SADCC countries, there is potential for surplus producers such as Zimbabwe, and to some extent Malawi, supplying grains to deficit countries (Table 4).<sup>2</sup> But lack of effective demand, poor communication, undependability of supplies, high production, transportation and storage costs, and fluctuating demand presently appear to limit SADCC countries realising this potential.

#### D. Agricultural Trade Between SADCC Countries and The World

This section discusses agricultural trade patterns between four major SADCC countries and the rest of the world.<sup>3</sup> Because most of the trade which SADCC countries conduct is with the rest of the world, an understanding of this trade is particularly important to unravel factors influencing intra-SADCC trade.

At their current low levels of economic development and industrialisation, SADCC countries are producers and exporters of primary commodities and importers of finished goods, intermediate capital goods and raw materials.

##### 1. The structure of SADCC countries' principal agricultural exports

Figure 3 shows agricultural commodity exports are key sources of foreign exchange for Malawi, Tanzania and Zimbabwe. In 1986, total agricultural foreign exchange earnings comprised 92%, 83% and 51% of the total merchandise exports foreign exchange income of Malawi, Tanzania and Zimbabwe respectively.

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<sup>2</sup>For the case of Zimbabwe, Murphy (1988) argues that Zimbabwe should deliberately expand maize production to satisfy its domestic requirements and meet about a third of the import needs of the other eight SADCC countries. Although this will increase financial losses appearing on the Grain Marketing Board's maize trading account, it will substantially increase net foreign exchange earnings and benefit Zimbabwe.

<sup>3</sup>Data not available for the other SADCC countries: Angola, Botswana, Mozambique, Lesotho, and Swaziland.

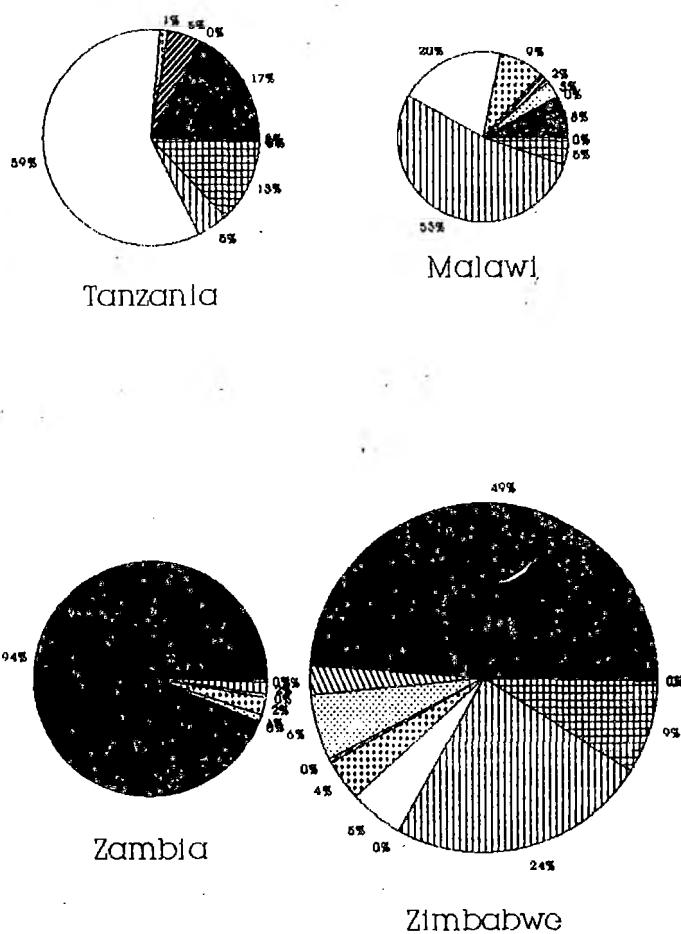
TABLE 4: Food Self-sufficiency Among SADC Countries (1983-1985 average)

COMMODITY	COUNTRY								
	Angola	Botswana	Lesotho	Malawi	Mozambique	Swaziland	Tanzania	Zambia	Zimbabwe
	<u>Self-sufficiency Index<sup>a</sup></u>								
Cereals- (excluding beer)	.47	.06	.39	1.10	.57	.46	.92	.81	.99
Maize	.73	.05	.20	1.15	.09	.54	.94	.88	1.12
Sorghum	-	.09	.06	1.01	1.00	1.00	1.00	1.00	1.00
Millet	1.00	1.00	-	-	1.00	-	1.00	1.00	1.00
Wheat	.05	.03	.23	.03	.04	1.00	.53	.15	.64
Rice	.22	-	-	1.04	.25	1.00	.84	.40	.05
Barley	-	-	.50	-	-	-	.71	.22	1.32
Roots and tubers	1.01	.64	.67	1.02	1.00	1.00	1.00	1.00	1.01
Sugar crops and sweeteners	.72	-	-	1.63	.87	7.10	.99	1.93	1.42
Pulses and tree-nuts	.83	.88	.55	1.06	2.08	1.00	1.37	1.90	.92
Beverages	6.67	.45	.43	39.00	1.40	.14	6.33	1.00	3.38
Meat, fats and butter	.64	1.62	1.00	.71	.74	.77	.82	.83	.82
Milk	.38	.80	.34	.65	.53	.86	-	.90	.88
Eggs	1.00	1.00	.50	1.00	1.00	-	-	1.00	1.00
Fish	1.39	.50	-	1.07	.76	-	-	.88	.71
Miscellaneous food products	.90	.83	.59	1.01	-	.50	-	1.00	1.00

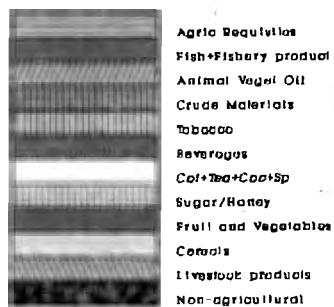
a. Self-sufficiency index is calculated as quantity domestically produced divided by quantity produced plus quantity imported less quantity exported. A ratio of less than 1 means that the country is not self-sufficient and relies on imports to meet domestic demand. A ratio of greater than 1 means that a country is self-sufficient and exports part of domestically produced commodities. Where no figures are given, either the production is negligible or an estimate is impossible.

Source: FAO Standardised Food Balance Sheets, 1987.

Fig 3: Principal Agricultural Exports of Selected SADC Member States, 1986



Legend: Commodity



Source: FAO Trade Yearbook, 1987.

Total agricultural foreign exchange earnings for Zambia during the same year accounted for 6% of the total merchandise export foreign exchange earnings. Overall, the major agricultural foreign exchange earning commodities in 1986, in decreasing order of importance were: tobacco; coffee, tea and cocoa; sugar and honey; textiles and crude materials; cereals (Malawi and Zimbabwe); fruit and vegetables (Tanzania); and meat and dairy products (Zimbabwe). Thus, the export of similar tropical agricultural products competing for the same, traditional markets in Europe and North America is more important than doing trade with themselves. This is a direct result of the present export market situation. Key informants interviewed in this study reported that all SADCC countries find it necessary to concentrate on expanding agricultural exports to traditional markets since it is these which provide most of the urgently needed foreign exchange to imports. Traders in Zambia reported that even the Zambian Government, which has relied on mineral exports (mostly copper) in the past, is now trying to encourage agricultural exports by allocating relatively more foreign exchange to the agricultural sector for importing raw materials, spares and capital goods.

## 2. The structure of SADCC countries' principal agricultural imports

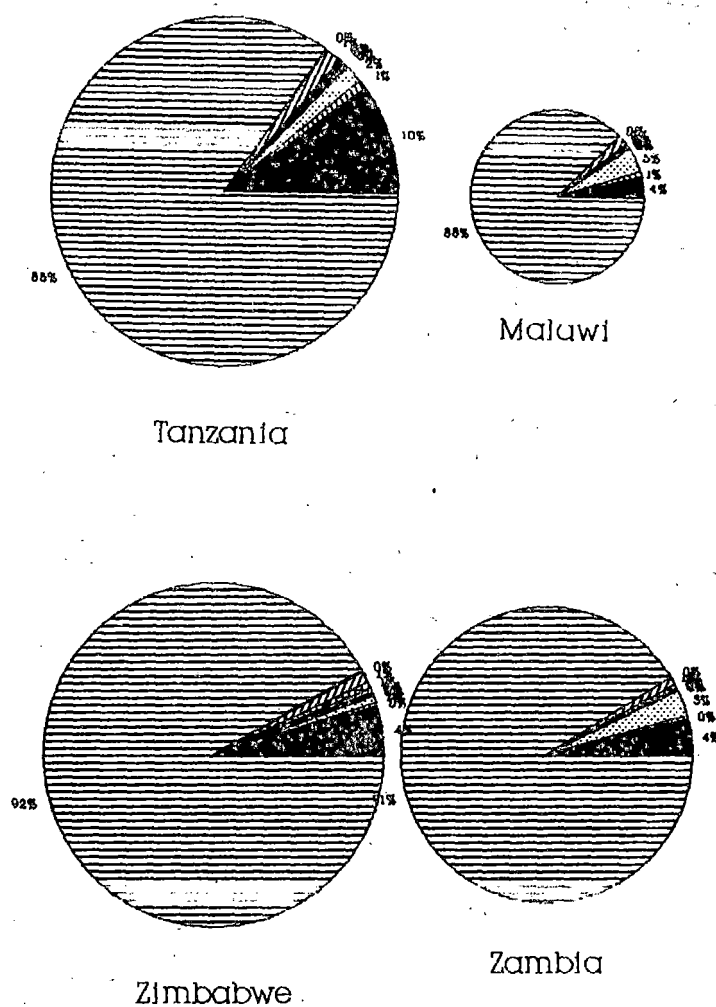
Figure 4 shows that the imports of agricultural commodities of the four countries as a percentage of total 1986 merchandise imports were 15%, 12%, 9% and 8% for Tanzania, Malawi, Zambia and Zimbabwe respectively. Overall, the major imported agricultural commodities, in decreasing order of importance, were: agricultural requisites, mainly fertilisers, pesticides, and agricultural machinery; cereals, mainly wheat and rice; and animal and vegetable oils. SADCC domestic economies lack capacity to produce these in any significant amount to meet domestic requirements. Therefore, they are obtained from offshore sources such as South Africa, Europe, and North America.

Figure 5 summarises the development of total trade for the four SADCC countries. In terms of total trade, Tanzania and Zambia experienced decreasing net exports over the 1981 to 1986 period<sup>4</sup>. Malawi's net total exports fluctuated around zero. Zimbabwe faced declining net exports up to 1982, but reversed this trend and by 1983 had a favourable balance of trade. Compared to Malawi and Zimbabwe, declining net exports had a greater effect on the balance of payments of Tanzania and Zambia and depleted their stocks of foreign exchange.

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<sup>4</sup>Negative net exports mean that a country exports less than it imports from abroad i.e. it has a negative balance in total trade.

Fig 4: Principal Agricultural Imports of Selected SADC Member States, 1986

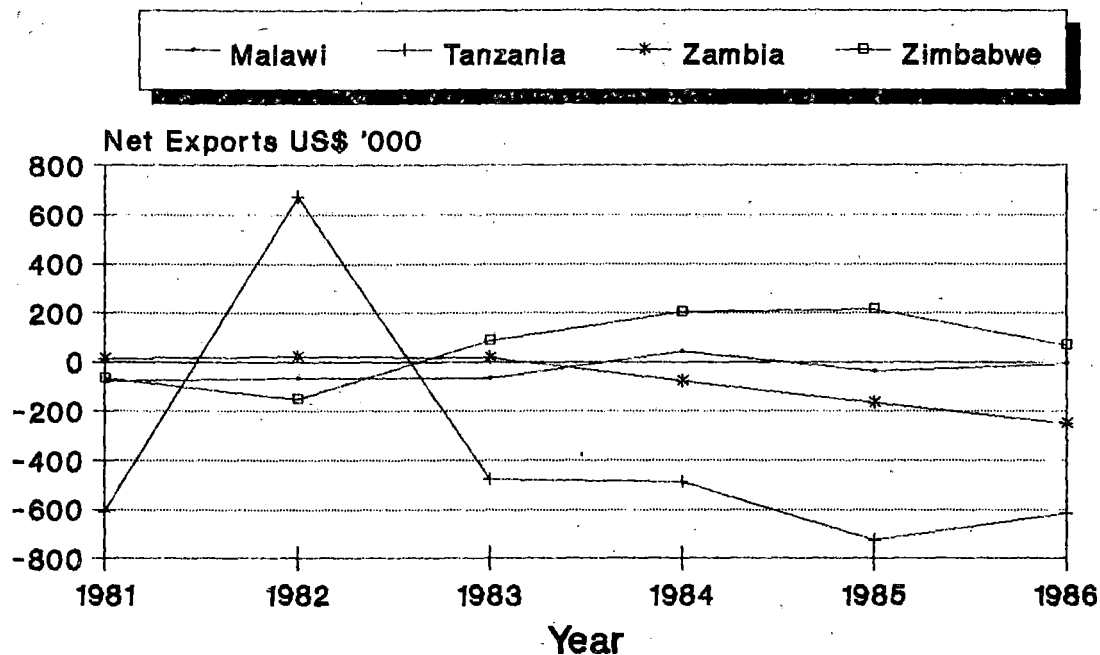


LEGEND: Commodity

	Non-agricultural
	Fish+Fishery product
	Animal Veget Oil
	Crude Materials
	Tobacco
	Beverages
	Cof+Tea+Coc+Sp
	Sugar/Honey
	Fruit and Vegetables
	Cereals
	Livestock products
	Agric Requisites

Source: FAO. Trade Yearbook.1987.

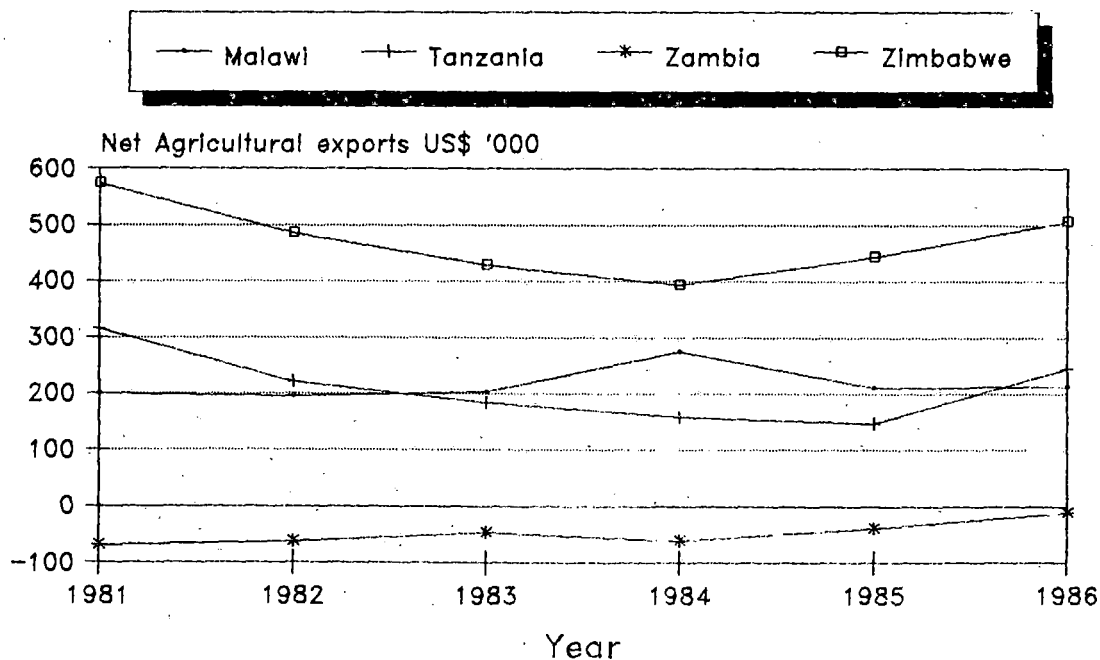
Fig 5: Development of Total Trade



Net Exports are total merchandise  
exports less imports.

Source: FAO.Trade Yearbook.1987.

Fig 6: Development of Agricultural Trade



Net Exports are total merchandise  
agricultural exports less imports.

Source: FAO.Trade Yearbook.1987.

This in turn reduced their import capacities and required tighter rationing of foreign currency for essential imports, leading to shortages of imported agricultural inputs which constricted agricultural exports and decreased even further their foreign exchange earnings.

In contrast, in terms of agricultural trade, Malawi, Tanzania and Zimbabwe maintained positive net exports over the 1981 to 1986 period (Figure 6). Zambia faced negative net agricultural export earnings over the 1980 to 1986. Thus, there is one continuously deficit country - Zambia. In the other three countries, the agricultural sector is a net earner of foreign exchange although if one adds raw materials such as fuel and oils, electricity, and packaging materials which are imported as industrial commodities, the agricultural trade balance may be less positive. An interesting observation is how little the trade changed over these years.

#### E. Current Intra-SADCC Agricultural Trade

Although there are no adequate data on intra-SADCC trade, estimates suggest that about 5% of total SADCC trade is between SADCC countries themselves. The lack of adequate intra-SADCC trade data is due to the large volume of unrecorded trade through parallel markets. In some cases this trade is of comparable size to officially recorded trade (Southern African Economist, 1989).

A country-by-country review of intra-SADCC trade during the years 1982 to 1984 indicated that exports of agro-based commodities were erratic from year-to-year, and were dominated by a few commodities in each country (Chr. Michelsen Institute, 1986). Discussions with sample traders revealed that most intra-SADCC agricultural transactions are ad hoc rather than regular, suggesting that many markets are opportunity markets rather than regular flow markets.

##### 1. Composition

Although ideal data is not available, published reports based on existing data indicate that the main agro-based commodities traded within SADCC countries during the years 1982 to 1984 were: food products 25%; crude materials 10%; fuels and energy 16-17%; and semi-manufactured and manufactured goods 50% (Chr. Michelsen Institute, 1986). This structure differs from SADCC countries' overall exports, which largely consist of agricultural and mineral commodities with manufactured products comprising about 10%. It appears that similarities in agricultural production patterns and lack of processing, transport and storage facilities limits the exchange of food crops among SADCC countries. The infancy of SADCC agro-industries, poor communication networks and lack of packaging further reduces the



chances of agricultural trade.

## 2. Direction

In terms of direction, South Africa is a major trading partner for many SADCC countries, accounting for 7% of the total SADCC exports and 30% of their aggregate imports (Chr. Michelsen Institute, 1986). Intra-SADCC trade is of relatively greater importance for Botswana, Malawi, Mozambique and Zimbabwe. For Swaziland, Tanzania and Zambia intra-SADCC trade is of moderate importance whilst for Angola and Lesotho it is insignificant. Trade between the SADCC countries and the rest of the Preferential Trade Area (PTA) is also limited.

Botswana exported meat to Angola (1979 and 1980) and to Mozambique (1981 to 1984). These exports were very variable. They depended on surplus beef production in Botswana, the European Economic Community (EEC) market and the demand for beef in Angola and Mozambique. Botswana exports textiles, clothing and copper/nickel matte to Zimbabwe. In recent years, these exports have faced increasing protectionist measures in Zimbabwe (Southern African Economist, 1988).

Malawi has exported mostly agricultural products: rice, pulses, vegetables, textiles and tobacco. Malawi exported textiles to Zimbabwe in the early 1980's but these declined in 1983 and 1984. Malawi also exported maize to Zimbabwe in 1984. Malawi has exported agricultural implements, fish, clothing and footwear to the SADCC region.

Mozambique has exported textiles, tyres and tubes to Tanzania on an irregular basis. These exports have declined because of production problems in Mozambique.

Swaziland exported wood, chemicals and agricultural machinery (shellers) to Zambia and wood pulp to Zimbabwe.

Tanzania exported textiles, and clothing to Mozambique and fish to Zambia.

Zambia has exported to the SADCC region have been: electricity, chemicals, lead, maize bran, and molasses to Zimbabwe; zinc, wire nails, sugar cane, and poultry feeds to Tanzania; polished rice, meat, vegetables and maize seed to Angola; maize bran to Botswana; and maize seed to Mozambique.

Zimbabwe is the largest exporter within the SADCC region. It has exported a wider range of commodities, including: maize to Angola, Botswana, Malawi, Mozambique, Tanzania and Zambia; meat to Angola (1984); sugar to Botswana and Mozambique; textiles to Botswana, Malawi (1980-82) and Zambia; milk powder to Mozambique

and Zambia; maize, sorghum, sunflower, soyabean, barley and wheat seed to Angola, Botswana, Malawi, Mozambique and Zambia; fertilisers to Zambia; agro-chemicals to Malawi and Zambia; locally assembled tractors to Zambia; irrigation equipment and agricultural implements and tools to Botswana, Lesotho, Malawi, Mozambique, Tanzania, Swaziland and Zambia; malt to Zambia, Botswana and Mozambique; and beer to Mozambique.

#### **F. Role of Donors in Intra-SADCC Trade**

Traders and key informants interviewed in Botswana, Zimbabwe and Zambia reported that donors financed as much as 100% of food commodities and 60% of agricultural inputs such as seed, fertilisers and machinery, moving within the region. A major catalyst for intra-SADCC trade is donor funds for relief e.g. World Food Programme is buying maize for Mozambique; and other aid donors have financed food imports to Malawi and Zambia. Without these funds there is a problem of food deficit countries failing to pay for their imports.

### III. TRADERS' ASSESSMENT OF POTENTIAL FOR INTRA-SADCC TRADE

In general, traders were optimistic as to the potential for expanding trade between SADCC countries. Yet, they recognised that numerous constraints need to be relaxed for this potential to be realised.

#### A. Agricultural Commodities

Traders were asked to identify agricultural commodities and inputs which they believe had a significant potential for expanded trade between SADCC countries within the next ten years. Commodities they identified included seed; agro-chemicals; fertiliser; agricultural tools, equipment and small machinery; packaging materials; fish; processed meat; maize and maize meal; kola nuts; edible oils; dairy products; fruit and vegetables; malt and sugar (Table 5).

##### 1. Shortcomings of Comparative Price Analysis

Normally, price data could be used to evaluate the competitiveness of products produced in a country - relative to similar products in a neighbouring country. Yet, traders argued that it is difficult to use price data to determine the potential for trading these commodities among SADCC countries for several reasons. First, many respondents reported that products originating within SADCC countries were more expensive, compared to the cost of landing similar commodities from non-SADCC sources. Consequently, many SADCC producers must sell some products at cost, or even at a loss, for their exports to be competitive in regional markets. Despite product price uncompetitiveness, producers unanimously reported that SADCC regional export markets were very attractive. This is because firms make up for the losses through export incentives which are part of national export promotion programmes. SADCC governments with export promotion programmes pay firms export incentives in hard currency. Because export incentives are paid in hard currency outside the conventional recurrent import allocations, firms can use them to import inputs they are otherwise unable to obtain, due to foreign exchange shortages. Also, SADCC governments increase the recurrent import allocations of firms able to increase their export performance.

Second, respondents reported that SADCC firms often compete for unprofitable export orders which they normally would avoid because these orders increase their throughput, which in turn lowers production costs and keeps prices down.

Third, agricultural machinery firms pointed out that locally produced agricultural equipment is adapted to local conditions and is more robust than imported equipment.

TABLE 5: Agricultural Commodities and Inputs That Traders Identified As Having Significant Potential to Expand Trade Between SADCC Countries With The Next Ten Years

COMMODITY	IMPORTER	EXPORTER
Cattle genetic material (semen and embryos)	Rest of SADCC	Zimbabwe
Seed (maize, sorghum, sunflower, soyabean, barley, wheat, vegetable)	Angola, Botswana, Malawi, Mozambique, Swaziland, Zambia.	Botswana, Malawi, Zambia, Zimbabwe
Tropical fruit seedlings	Botswana	Zimbabwe
Agro-chemicals (insecticides, fungicides, herbicides)	Malawi, Zambia	Zimbabwe, Swaziland
Animal health and livestock remedies. (dips, vaccines, antibiotics)	Botswana, Malawi, Zambia, Zimbabwe	Botswana, Zimbabwe
Fertiliser and fertiliser raw materials	Zambia, Malawi	Zimbabwe, Zambia
Agricultural tools and implements	Botswana, Lesotho, Mozambique, Swaziland, Zimbabwe, Tanzania	Zimbabwe, Zambia, Swaziland
Agricultural equipment and machinery	Malawi, Mozambique	Zimbabwe
Livestock scales and handling equipment	Malawi, Zambia	Zimbabwe
Agricultural tractor spares	Malawi, Zambia, Zimbabwe	Botswana, Zimbabwe
Locally assembled tractors	Zambia, Malawi	Botswana, Zimbabwe
Packaging materials	Malawi, Zambia	Swaziland, Zimbabwe
Fish and fish products	Botswana, Zambia, Zimbabwe	Malawi, Mozambique
Processed meat	Botswana	Zimbabwe
Maize, maize meal and other products	Mozambique, Botswana	Zimbabwe
Pulses	Botswana, Mozambique	Malawi
Processed groundnuts Zimbabwe	Botswana	Malawi, Zambia
Kola nuts	Botswana	Mozambique
Edible oils	Botswana, Mozambique, Zambia	Zimbabwe
Milk and milk-related products	Mozambique, Zambia	Zimbabwe
Fruit and vegetables (fresh, dried, and canned)	Angola, Botswana, Zimbabwe	Botswana, Zambia, Zimbabwe
Malt	Botswana, Mozambique, Zambia	Zimbabwe
Sugar	Botswana, Mozambique	Malawi, Zimbabwe

Thus, although locally produced equipment may be more expensive than overseas equipment, locally produced equipment is cheaper for farmers to maintain. Also, when comparing the price of locally produced equipment with imported equipment, one is not comparing perfect substitutes.

Fourth, agricultural input firms importing from within SADCC mentioned that less lead-time is required for goods originating within the region. As a result, firms turn over cash more quickly. This reduces financing costs and lowers marketing margins. Also, in situations when the foreign exchange allocating authorities have not released import allocations to firms sufficiently early to land inputs from off-shore sources before the beginning of the cropping season, it is quicker to purchase from a neighbouring country. Also, firms in Zambia and Zimbabwe importing from within the SADCC region reported that transportation costs for regional imports were lower than for off-shore imports.

## 2. Product similarity

Some respondents argued that there is very little potential for expanding intra-SADCC trade, given the similar agricultural production patterns and structures, technologically weak industrial base, and traditional business links with South Africa, Europe and the United States. A possible explanation of this is that many people are still thinking of comparative advantage in terms of physical characteristics (i.e., differences in soils, rainfall, agro-climatic characteristics, production and labour structures). But international trade in many products is becoming increasingly based on differences in skills and economies of scale.

Most of the industrial world is not working on appropriate technology for the SADCC region. Thus, the real potential for intra-regional trade lies in identifying appropriate technologies, and developing economies of scale in their production to reduce costs to farmers. Trader responses showed that there are many locally adapted labour-saving and product-saving devices with potential for economies of scale, and hence opportunities to expand intra-regional trade. Examples of labour-saving technologies include hand tools, ploughs, harrows, and planters. Examples of product saving technologies are: dehulling and hammer mills that would have higher rates of recovery; crop-drying techniques; locally adapted spraying equipment; and fumigants that improve storage. In some cases, the technology itself is the commodity that is traded as when countries trade services, or production techniques. Hence, the potential for expanded intra-SADCC trade does not rest simply on climatic, soil and labour differences. Thus, it makes a lot of sense to focus on expanding intra-regional trade in agricultural inputs.

## B. Agricultural Inputs

The importance of increasing food production is self-evident. Food production is the major source of income for the majority of people in the region who live on farms. Long run food security will come from a combination of increased productivity in farming and from expanded access to productive employment. Trade can make an important contribution to both. Agricultural inputs are especially important, both for their potential in increasing on-farm production (including reducing food losses) and as a source of off-farm employment.

Traders identified three types of inputs as having intra-regional trade potential - seed; agricultural machinery; agricultural chemicals. The following discussion reviews the potential and constraints associated with expanding trade in these items, to illustrate the issues.

### 1. Seeds

Seed firms were optimistic about opportunities for expanding trade arising from differences across countries in the level of specialisation; sophistication of the seed industry; and differences in production, storage, and marketing capacity. Zimbabwe, Zambia and, to some extent Malawi, have fairly well developed seed industries with a capacity to meet domestic requirements, and export during normal years. In contrast, Angola, Mozambique, and Tanzania are unable to produce sufficient seed to meet their domestic requirements.

Although Zambia and Malawi are normally self-sufficient in seed requirements, they have imported maize seed from Zimbabwe during drought years. Zambian seed companies reported that they have exported mostly open-pollinated maize seed varieties to Mozambique and Angola, even during drought years. Zimbabwean firms attributed their success in developing a viable seedhouse to the country's research capacity; mastery of production techniques; irrigation; payment incentives to farmers; and skills in managing seed reserves. Seed producers in Botswana indicated they could supply drought-resistant cowpeas seed to the region.

### 2. Agricultural machinery, tools, and equipment

Traders indicated their belief that SADCC countries are unlikely to establish efficient import-substitution agricultural input industries for large scale machinery such as tractors, combine harvesters, specialised tillage, threshing and harvesting equipment. Thus, they will continue to import these from outside the region. They believe there are limited opportunities to expand trade in locally-assembled tractors, harvesters, threshers; and in spare parts. On the other hand, they feel there is a potential to expand trade in locally adapted small

machinery and implements, including handtools, ploughs, harrows, cultivators, sprayers, irrigation equipment, livestock scales and handling equipment, and grinding mills.

Traders believe that potential for trade in locally adapted machinery arises from differences between SADCC countries in engineering specialisation and skills. In the SADCC region, Zimbabwe has the greatest engineering capacity and a well developed steel industry. Respondents argued that access to a regional market would provide a greater incentive for local agricultural machinery industries to adapt small agricultural machinery and equipment to local conditions.

### 3. Agricultural chemicals and fertilisers

The manufacturing of agro-chemicals is a complex, sophisticated process, often requiring a multi-purpose plant in only one part of the world supplying several countries. Consequently, agro-chemical firms reported their belief that for most agro-chemicals, there are no opportunities to expand intra-SADCC trade through regional production. On the other hand, traders pointed out that blending is possible within the region, but it still requires high levels of sophistication. Moreover, as the value added by local formulation is small, its benefits are minimal. However, they believed there is potential to expand intra-SADCC trade in animal health and livestock remedies (e.g., antibiotics, vaccines, bull rings, and weaner plates), many of which are presently produced within the region.

A few respondents perceived limited opportunities for expanding trade in herbicides such as, gramoxone, and paraquat and strategic pesticides to fight major pest and disease outbreaks by holding stocks in bond in one country, with trade distributing between countries. Zimbabwe has supplied formulated insecticides to regional markets, mostly Zambia and Malawi. Yet, traders face problems acquiring foreign exchange to import the pre-formulated chemicals and packaging materials.

Respondents believed that there was significant potential to expand trade in fertilizers. Traders argued that, compared to agro-chemicals, unit costs for manufacturing fertiliser are small. Since fertiliser is bulky and used in large quantities, it makes sense for countries to manufacture fertilizers locally rather than import from outside the region. Also, fertilizer can be manufactured from some intermediates like air as a source of nitrogen. While Zimbabwe has supplied fertiliser to Zambia, high production costs make Zimbabwe uncompetitive in regional markets, compared to South African fertiliser firms which use more efficient technology. Respondents indicated that refurbishing existing fertiliser plants within SADCC to increase capacity utilization, and phasing out local subsidies on fertiliser manufacture would lead to greater trade.

#### IV. TRADER ASSESSMENT OF FACTORS CONSTRAINING INTRA-SADCC TRADE

On the structured questionnaire, representatives of agricultural commodity import and export firms and parastatals were asked to rank factors which they consider most important in reducing potential import and export volume of farm inputs and products marketed by their firms, followed by open-ended questions about most important constraints.

Traders identified four main problems:

- o High production costs and poor quality relative to products from outside the region;
- o Lack of effective demand and limited capacity to supply to meet existing demand;
- o High transaction costs; and
- o Policies and practices of SADCC governments

Each of these will be discussed in this chapter.

##### A. High Production Costs and Poor Quality

On the production and processing side, competition from non-SADCC can determine intra-SADCC trade. Traders elaborated several advantages of pursuing non-SADCC trade, including low cost suppliers; reliable deliveries; subsidised imports from non-SADCC sources; and preferential access to SADCC markets obtained by non-SADCC firms under special trade arrangements.

##### 1. High production costs

Respondents argued that SADCC firms cannot compete in regional markets because they are high cost producers. For example, Malawi and Zambia can import agricultural implements from Argentina, Brazil or Kenya at lower prices than importing from Zimbabwe. Zimbabwean agricultural machinery firms cannot compete because the prices of domestic inputs - steel and labour - are high. Some raw materials are inevitably imported. The prices of raw materials have increased because the Zimbabwe dollar has depreciated. Also, imported raw materials are subject to various surcharges. Firms can obtain duty drawback on imported inputs and incentives on inputs such as steel after they export products, but these are often cumbersome to obtain. Also, firms still have to outlay the money for paying duty or purchasing steel.

Some firms argued that the inefficiency in SADCC manufacturing industries is partly due to government controls on labour. One agricultural machinery company surveyed in Zimbabwe produced computer printout records of the performance of its workers showing that efficiency levels were 80% before the introduction of new labour laws; but had now dropped to 67%.



The reported reason for this was that management now has less control over its labour force.

## 2. Unreliable deliveries

Another reason why SADCC country firms have difficulty competing against non-SADCC firms in supplying SADCC markets is unreliability of deliveries. Most SADCC agricultural manufacturing firms have not been export-oriented. As a result, they cannot guarantee regular and timely supplies. Importing firms in Botswana expressed their reluctance to import goods from Zimbabwe because Zimbabwean firms often fail to deliver goods. By comparison, they reported that South African firms often deliver goods within a day of ordering. In most cases there is a need to nurse the supplier. Many importers reported that they do not have the patience to do this.

Yet, the problem of unreliable supplies is not only a regional problem. SADCC country importing firms reported that they often face problems of unreliable supplies when buying from international markets because they purchase small volumes which are of minimal economic interest to external suppliers.

## 3. Subsidized imports from non-SADCC countries

Agricultural machinery firms in Zimbabwe reported that their major off-shore competitors in regional markets, Brazilian firms, sell at lower prices because they obtain large export incentives from the government of Brazil. Importers in Botswana reported that the South African Government gives large export incentives (of up to 30% on some commodities) to South African firms to enable their goods to be very competitive in SADCC markets. South African firms exporting to Botswana often fund wholesalers and retailers in Botswana to advertise their products during major advertising fairs. Some South African firms offer monthly special price reductions to attract customers. In contrast, there is little advertising in Botswana by SADCC firms. Further, SADCC exporters cannot fund advertising in Botswana because of foreign exchange restrictions.

Traders reported that non-SADCC governments often influence trade by giving better terms of credit. For example, South Africa gives special lines of credit to SADCC countries enabling their firms to obtain imports from South Africa on low interest rates and deferred payment.

## 4. Preferential access to markets by non-SADCC firms

Non-SADCC firms often have better access to SADCC markets due to special trade agreements. Many SADCC manufacturing firms reported that they do not receive favourable treatment under PTA. Rather, external competitors who give better incentives in the

form of commissions to local distributors are given preferential access to markets. A few exporting firms indicated that a major barrier to exporting to Botswana, Lesotho, and Swaziland is the South African Customs Union (SACU). Under SACU, goods originating in SADCC countries are subject to 10% surcharge whereas goods imported from South Africa are not. Because importing firms pass on the surcharge to consumers, SADCC originating goods are more expensive compared to South African originating goods.

SACU also makes it logistically simpler to import from South Africa as the customs formalities for clearing goods imported from within SACU are simpler, and quicker. In contrast, complex time consuming documentation is required for clearing goods from the SADCC region.

#### **B. Lack of Effective Demand and Limited Capacity to Supply Products**

Traders argued that a major constraint on expanding intra-SADCC trade is a lack of effective demand; and the mirror issue is a limited capacity to supply products to meet existing demand at competitive prices. This problem manifests itself in two ways: purchasing power is limited at the household level; and at the national level, currencies are inconvertible and foreign exchange is scarce.

##### **1. Low purchasing power**

Discussions with both key informants and traders showed that a very large segment of the population of the SADCC region has little purchasing power because they are largely employed in subsistence farm production.

Most respondents from private exporting firms indicated this lack of effective demand in SADCC countries as a major impediment to their trade with these countries. Many respondents suggested that export firms need to spend a lot of money developing markets through product research and development, establishing distributors (agencies), giving discounts and commissions, advertising, granting credit and finance. Because the markets are thin and expensive to break into, firms may not get adequate returns in the end. Also, firms may not be able to sell the product after developing the market because of uncertainties such as adverse weather, foreign exchange shortages and political factors.

A few businessmen reported that they are unable to incur losses while developing markets. Some of them indicated that prospective markets are not worth costs of servicing them. In contrast, they indicated that it is more profitable to target markets other than SADCC, in part because of the greater demand.

An indication of the lack of effective demand in SADCC agricultural markets is that donors finance more than 60% of all intra-regional trade (i.e. grain, seed, fertiliser, agro-chemicals, agricultural implements, and milk products).

One reason why SADCC manufacturing firms are not as mechanised as their off-shore competitors is precisely the small size of national markets. This is why firms within SADCC need export markets. An integrated regional market will enable firms to increase throughput in order to reduce unit costs of production. Reducing barriers to trade will expand the potential market and effective demand, thereby increasing opportunities for specialisation, economies of scale, productivity, incomes and effective demand. Thus, part of the solution to a major limitation to trade is expanding trade.

## 2. Lack of raw materials

Both export and import firms interviewed in this study reported that there are shortages of raw materials, due to a lack of foreign exchange to import raw materials for producing exportable goods. For example, several representatives of exporting firms reported that their companies lost several millions of dollars of business because of shortages of raw materials such as tin plate, aluminium, cellophane or other materials for packaging goods. Importing firms in Botswana consistently reported that SADCC firms cannot guarantee supplies because they lack foreign exchange and turn down orders as a result.

While some of these raw materials can be sourced domestically, they are often more expensive and of inferior quality (e.g., some companies reported that they obtain locally manufactured gears for twice the price of imported gears, and the locally produced gears last half as long as imported gears). A representative of an agricultural equipment manufacturing company in Zimbabwe pointed out that the manufacturing industry in the SADCC region uses old equipment, which is technologically obsolete. By contrast, manufacturers overseas can obtain the correct equipment for the job.

Furthermore, SADCC firms do not have access to the latest cost-reducing technology. Except for Botswana, SADCC industries are struggling because governments are allocating inadequate foreign exchange to firms to import sufficient up-to-date machinery and spare parts to replace obsolete equipment, let alone improve the existing capital infrastructure. Many firms reported that they were operating below full capacity as a result. Thus, foreign exchange shortages severely handicap firms' capacity to strengthen their infrastructure in the form of capital expansion to compete effectively against off-shore competitors.

### C. High Transaction Costs

There is little doubt that high transaction costs limit the potential for intra-SADCC agricultural trade. Traders elaborated numerous transaction costs constraining intra-SADCC trade, including obtaining market information, travel and follow-up costs, transport costs, insurance charges, and losses incurred due to delayed payment.<sup>5</sup> While a product may be competitively priced ex-factory, high transaction costs may increase the landed price to noncompetitive level. Some transaction costs are directly imposed by government policy, others arise from other sources. This section discusses the latter.

#### 1. Access to market information

Traders reported that lack of market information on available goods, sources of supply, prices, and demand increased trading costs. Poor communications between SADCC countries (e.g., mail, telephones, telex, and mass media), and difficulties in travelling intra-SADCC limit contact in the trading community. The availability of market information is a severe barrier to determining the potential demand and supply of new products.

a) Domestic markets. Most firms indicated that obtaining market information on domestic demand was not a problem. Traders obtained information on commercial requirements for agricultural inputs through meetings with representatives of farmer organisations, and officials in the ministries of agriculture, trade, and commerce. Some firms kept annual sales records for forecasting demand. Additional information sources were distributors and company-funded market research. Some respondents pointed out that due to foreign exchange shortages, market information was not a problem as they could sell whatever commodities they imported.

b) Importing from outside SADCC. Most importing firms reported few problems obtaining market information on non-SADCC supply sources. Firms gave three explanations for this. First, many firms specialised in buying and selling proprietary quality products and they were constantly in touch with their suppliers. Second, importing firms that represented multi-nationals or had franchise agreements and distributorship ties with international companies had good access to information. Third, firms that had operated for a long time had developed knowledge, skills, and contacts overseas. However, buying from international sources can be a problem, particularly for newly established firms since the product may be unknown in the local market and it is difficult to ensure that suppliers are selling high quality

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<sup>5</sup>Transaction costs include all those direct and hidden costs a trader incurs when buying or selling a commodity.

products.

c) Exporting to outside SADCC. Firms exporting agricultural produce to non-SADCC destinations reported receiving market information mostly from their agents, and the International Trade Centre. One firm reported that there are sometimes delays and that timely information is not always available to enable it to decide in which overseas markets to sell, and which markets to avoid.

d) Intra-SADCC trade. There is no formal mechanism for disseminating market information. Firms indicated that the main mechanism is word of mouth, and is likely to remain so for some time. Extensive state participation in agricultural input markets made it easier for traders to identify markets. Information is often obtained from trade attaches, trader services and directories. Other reported sources were agencies, branches, and sister operating companies; donors; contacts in the international business community; tenders published in newspapers, government gazettes, and farmer publications; contacts in ministries and marketing boards; trade attaches; and talking to other companies and competitors (Table 6). While, some traders reported that access to market information was a constraint, others argued that it was not.

## 2. Travel and follow-up costs

External travel and regular customer calls are necessary to carry out intra-regional trade, since customers prefer buying from suppliers who visit regularly. In addition, firms must visit potential markets to inspect food processing factories; and to supply services such as soil tests, irrigation designs, seed production, pest control, and warrantee work. For example, Botswana offers many business opportunities to SADCC suppliers, but these are largely taken by South African businessmen who are able to travel into that country to service the market. While some importing firms in Botswana reported they had placed orders with exporters in Zambia, the Zambian traders did not follow-up with personal contacts to finalise the orders.

Some firms reported that they were unable to solidify market contacts, due to a shortage of foreign exchange for business travel within the SADCC region. Additional travel constraints include the absence of a lack of travel discounts on national airlines, and a shortage of suitable accommodation. For example, the Zimbabwean government allocates Z\$ 100.00 per day for business travel, irrespective of accommodation expenses in the country. Moreover, business travel allocations do not take account of transport expenses and airport departure taxes (which have to be paid in hard currency).

TABLE 6: Sources of Information About Trading Opportunities

INFORMATION SOURCE	IMPORTANCE		
	Very Important	Somewhat Important	Not Important
	Percentages		
Direct communications with potential buyers or sellers	93.7	6.3	0.0
Commodity brokers, chambers of commerce, branch offices, aid donors	52.9	23.5	23.5
Contacts in the international business community	50.0	32.3	17.7
Tenders for bid published in newspapers and/or the government gazette	38.1	23.8	38.1
Contacts in ministries or marketing boards	36.5	38.1	25.4
Communications with trade missions or embassies	35.5	45.2	19.4
Communications with competitors	21.7	35.0	43.3

### 3. High transport costs

More than 60% of the traders reported a shortage of reliable transport services (including refrigerated air transport) to send goods at economic rates to surrounding markets. Transport problems identified by traders include quality of services, access to transport, shipping delays, high costs, and government restrictions. These are discussed below.

a) Access. The main access problem is a shortage of trucks, locomotive power, and wagons to move commodities. The road transport problem is largely due to unavailability of spares, and the railway transport problem is due to shortages of rolling stock, spare parts, and tarpaulins to cover the goods. The transport problem has numerous effects on trade.

b) Quality of services. The most important quality of service constraints cited were transit losses due to mishandling, theft, and pilferage. When asked to identify their biggest risks when importing and exporting, 70% of the respondents in Zambia reported reliance on a single port and transit damage, theft, and pilferage. Some firms reported that they fly staff to Dar es Salaam to physically monitor the movement of goods at the port. Some respondents indicated that containerising the goods significantly reduces theft and pilferage losses. Difficulties are also encountered with inland transport, since a consignment may change trains several times before reaching its final destination. While a few firms in Zimbabwe reported that they had pilferage and losses on goods transported via Beira and Durban, these were not serious.

c) Shipping delays. The shortage of transport services results in late delivery of imports and delays in shipping exports, both on long hauls and when moving goods over a relatively short distance such as from Harare to Lusaka. A representative of an agricultural equipment firm in Zambia reported that it took six months to receive implements from a firm in Harare because transport was not available. Sometimes the delays are at the ports when there is congestion, partly due to poor handling facilities. Delayed delivery of imports increases the firms' financing costs since they must continue to pay interest on extended capital. Also, shipping delays result in deterioration of perishable exports, such as when airlines fail to leave on schedule, and the produce misses its connecting flights in Europe - resulting in the product being sold on the salvage market or thrown away. Horticultural exporters unanimously reported the lack of cargo space and reliable services as the main constraint to expanding exports.

d) Costs. Inland transport costs through some SADCC countries are extremely high. For example, one survey respondent reported transporting containerised cargo from the United Kingdom

to Dar es Salaam at a cost of US\$80/mt (March, 1988), while the cost of transporting the cargo from Dar es Salaam to Lusaka was US\$103/mt. While Durban to Lusaka transport costs are marginally higher, the lead-time to ship from Europe via Durban is only six weeks, compared to four months via Dar es Salaam. One respondent indicated that shipping through Beira cost US\$20/mt (December, 1987) more than via Durban. Also, the commodities take 2 days less time to reach Durban, compared to Beira. Agricultural machinery exporting firms in Zimbabwe reported that it costs roughly twice as much to transport agricultural equipment from Zimbabwe to Tanzania compared to transporting agricultural equipment from Brazil or Norway to Tanzania. In addition to high costs, traders face considerable uncertainty since regional transport rates change frequently and it takes two weeks to obtain a quotation.

e) Geographical isolation. While most SADCC countries are linked by roads, Angola is geographically isolated from regional markets. Thus, it is cheaper for Angola to obtain grain from Argentina than within SADCC. Communication between Angola and other regional partners is made even more difficult because the ships which call at Beira in Mozambique do not call at Luanda in Angola. The only alternative is to airfreight, but this is expensive.

f) Government restrictions. The flow of trade is affected by national transport policies, including different priorities on moving commodities to and from ports. For example in Zimbabwe, steel and tobacco are granted highest priority for transshipment to Beira port in Mozambique. Maize, which is of lower priority, takes about twice as long as steel and tobacco to move to Beira. In some instances, political considerations restrict access to preferred routes. Several firms in Zambia reported that South African routes are better equipped to bring in large machinery and other commodities which require specialised off-loading facilities. However, it is becoming increasingly difficult to use South African ports.

#### 4. Insurance problems

Some respondents reported that available export credit insurance is inadequate to cover commercial, political and war risks traders face when cross-shipping goods, receiving payment, or undertaking long-term production contracts. A few firms indicated that export credit insurance will facilitate trade since all SADCC countries, except Botswana, have payment problems, and the risks of transit stock losses are still high. On the other hand, some traders argued that regional exporters have little need for export credit insurance because most SADCC governments require exporting firms to be paid in cash before delivery or provided confirmed irrevocable letters of credit. Also, much regional trade is donor funded and a significant



proportion of the transactions are Government-to-Government. Yet, if the level of private commercial activities increases and the trade environment becomes freer, exporters will require export credit insurance to insure goods they ship without confirmed irrevocable letters of credit.

## 5 Payment problems

Fifty percent of the firms reported difficulties in financing intra-regional trade and negotiating payments as important barriers to expanding agricultural trade. Four reasons given for this are: (1) restrictions on moving currencies between member states; (2) most member countries insist on being paid in hard currencies, even though only Botswana has adequate foreign exchange for settling transactions; (3) exporters sometimes wait up to 15 months to receive payment for goods, even after when banks complete the necessary documentation, because of foreign exchange shortages; (4) numerous "brief-case businessmen" operate in the region, making transactions more risky. The specific payment problems mentioned were payment methods, credit period, the PTA Clearing House, and barter and countertrade.

a) Payment methods. In the current milieu, the most frequent method of payment is a "confirmed irrevocable letter of credit" (LOC)<sup>6</sup> (Table 7). The second most frequently used payment method is an "irrevocable letter of credit". Some firms indicated that they prefer to export on "letters of credit on sight", but governments forbid them to despatch goods until they receive either the money or "confirmed irrevocable letters of credit", often opened with European banks.<sup>7</sup> This is a barrier to trade when an importer has adequate domestic currency, but insufficient foreign exchange cover.

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<sup>6</sup>One of the methods to settle international transactions offered by the banking system. A letter of credit (LOC) is a letter opened by an importer with his bank and addressed by the importer's bank to an exporter undertaking the exporter to obtain money once he fulfills the conditions laid down in the letter of credit. The importer's bank sends the LOC to the exporter through a correspondent bank in the exporter's country. The correspondent bank acts as a forwarding and cash-paying agent. If the exporter is to obtain payment immediately, the credit is called a sight credit. An irrevocable LOC is one which cannot be modified or cancelled without the agreement of all parties. A confirmed LOC is one in which the correspondent bank in the exporter's country gives definite undertaking that the provisions for payment will be fulfilled.

<sup>7</sup>However, these regulations do not apply to exports to South Africa or to industrialised countries.

TABLE 7: Methods of Payment by Traders

METHODS OF PAYMENTS	TRANSACTION TYPE			
	Import from SADCC	Import from World	Export to SADCC	Export to World
	<u>Percentage of survey responses</u>			
Confirmed irrevocable letter of credit	34.0	27.6	26.6	17.3
Irrevocable letter of credit	28.3	20.0	25.0	21.2
Letter of credit	18.9	14.3	14.1	15.4
Cash against documents	9.4	15.2	12.5	0.0
Cash-in-advance	0.0	2.9	10.9	19.2
Bank draft, Telegraphic transfer	5.7	4.8	3.1	1.9
Cash on delivery	3.8	2.9	6.3	9.6
Open account	0.0	12.4	1.6	15.4

Even with "confirmed irrevocable letters of credit", banks sometimes delay paying exporters because no foreign exchange is available.<sup>8</sup>

b) Credit period. Another critical payment procedures problem is the number of credit days a country gives importers to pay. SADCC countries tend to give fewer credit days to regional importers (e.g., the Government of Zimbabwe gives 90 days but the South African Government gives 120 days i.e. better terms of credit).

c) PTA. The PTA has attempted to overcome regional trade payment problems by establishing the PTA clearing house. This mechanism enables a trader in Malawi - for example importing goods on the PTA common list from Zimbabwe, to pay for the goods in Malawian kwacha. The Bank of Malawi purchases Zimbabwean dollars and pays the exporter. Every two months, member countries settle balances in hard currency. Because every transaction between countries can be offset by selling, the PTA clearing house facilitates intra-regional trade by, in effect, significantly reducing the net balance that member countries pay in convertible currencies. The PTA clearing house, administered by the Zimbabwe Reserve Bank in Harare, has served to facilitate intra-regional trade, but does not fully meet the demand. Approximately Z\$ 150 - 200 million in total (all PTA countries) transactions went through the clearing house in 1987, which represents only a small proportion of total PTA trade.

There are several reasons why many of the potential benefits of the PTA clearing house are not achieved. First, since member countries have to ultimately settle their deficit balances in hard currency, they must allocate scarce foreign exchange for this purpose. This has led member countries to restrict imports if the same item is produced domestically - even if it is cheaper to import it from neighbouring countries. Second, member states are reluctant to sell hard currency commodities through the PTA. Traders reported that some commodities they would like to import from other PTA countries are often not on the common list.

Second, some mechanisms designed to stimulate exports in a country have an adverse effect on intra-regional trade. For example, Tanzania, Zambia and Zimbabwe give export incentives which enable exporters to retain some of their foreign exchange earnings, and to use them for importing raw materials. This has led firms to invoice PTA exchanges in hard currency in order to obtain retentions, although firms can still retain foreign

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<sup>8</sup> Even when importers in some SADCC countries (e.g., Zambia and Malawi) arrange to pay on confirmed irrevocable letters of credit, the Reserve Bank may overrule this when foreign exchange is in short supply.

earnings on PTA transactions when they invoice in domestic currencies.

Third, the PTA rules of origin discriminate against multinationals, making it difficult for them to participate in regional trade.

d) Barter and countertrade. Barter and countertrade deals can serve to expand trade by addressing problems of unexchangeability of national currencies. The Open General Import License between Botswana and Zimbabwe is similar to a barter arrangement, except that the countries barter for money instead of goods. Survey data suggests barter could be expanded if there was an increase in commodities traded, and an expansion in participating partners. Yet, since barter and countertrade deals are an expensive way to conduct business, they are only desirable as a last resort. Most barter and countertrade transactions are large. Since large-scale buyers tend to overlook small-scale suppliers, small-scale firms are at a disadvantage in competing for these opportunities.

#### D. Policies and Practices of SADCC Governments

Traders feel that there are several policies and practices of SADCC governments which increase transaction costs, thereby reducing the potential for mutually beneficial trade.

Currently, most SADCC countries face deteriorating export earnings, rising external debt, declining foreign investment, and stagnating real GDP growth. Consequently, they find it necessary to ration foreign exchange and impose import quotas to achieve a balance of payments equilibrium, maximise the utilisation of scarce foreign exchange, effect import substitution, generate employment, and arrest capital flight.

Many respondents interviewed in this study, acknowledged the need to control imports. However, they pointed out that government imposes too many restrictions, and the importing and exporting procedures substantially increase transaction costs. Moreover, some of the controls protect domestic industries from outside competition. Traders argued that controls hinder technology transfer, competition, foreign investment, and ultimately mutually beneficial intra-SADCC agricultural trade.

##### 1. Import controls

Import controls are a significant impediment to expanded trade. The following discussion of controls in force in Zimbabwe and Zambia illustrate these problems traders face.

a) Zimbabwe. The import control system in Zimbabwe involves 22 different government bodies (The Herald, 13 October, 1988).

The Ministry of Trade and Commerce allocates foreign exchange every six months to the public sector (army, airforce, statutory bodies, and parastatals) and to the commercial sector; while the Ministry of Industry and Technology allocates foreign exchange to the manufacturing sector. Also, the Ministry of Lands, Agriculture and Rural Resettlement and the Ministry of Mines manage the allocation of foreign exchange to the agricultural and mining sectors respectively. The Confederation of Zimbabwe Industries (CZI) and Zimbabwe National Chamber of Commerce (ZNCC) have trading divisions (the Industrial Import Control and the Commercial Import Control) which administer the recurrent (basic) import allocations to individual firms by tariff code for non-PTA business. The Ministry of Trade and Commerce directly administers allocations for PTA business.

Thirty percent of the respondents argued that the main advantages of the current foreign exchange system is that it channels limited foreign exchange to the most needed imported commodities. For example, a priority is given for firms to import critical inputs such as fertiliser, dip chemicals in adequate amounts to meet domestic requirements). Also, the procedures serve to standardise models/brands imported, thereby reducing spare parts and back-up service problems. In general, more established firms were more satisfied with the system than were newer firms.

On the other hand, traders pointed out that the allocation system has several costs. First, firms must follow complex, slow, and time-consuming procedures in applying for import allocations. Many firms reported spending much of their management time contacting government departments to sort out problems. Several firms indicated that currently it takes twice as long to obtain import allocations, compared to five years ago. Even, PTA allocations take a minimum of three months for processing. As a result of the delays, traders lose business opportunities.

Second, a firm's import allocation will fluctuate, depending on the availability of foreign exchange. Consequently, the uncertainty about how much foreign exchange they will receive makes planning difficult. For example, if foreign currency allocated to a firm is cut during a certain quota period, the firm will have to cancel its order. If the firm's import allocation is increased during the next quota period, the firm has to resubmit its orders to suppliers. In some instances, by the time a firm receives its order, farmers for example may no longer need the input, and the firm must store the input until the following season.

Third, it is difficult for new firms to enter the import business. Firms not registered as "traditional importers" face difficulties acquiring a recurrent import allocation, and donor

funds. This has particularly affected emergent businessmen.<sup>9</sup> Due to initial irregularities involving emergent business - arising from a lack of understanding of markets, skills in purchasing and overseas contacts - government now requires that firms must have two years of business experience to qualify for an import allocations. In addition, Government now requires importing firms to produce balance sheets and employment records, a measure designed to eliminate "briefcase" businessmen.

Fourth, the allocation system tends to inflate prices of imported goods via several avenues. In recent years, firms with established allocations have had their allocations cut to provide entry to emergent businesses. A few of these firms, who rely on imports to maintain profits, have increased prices to maintain profits. Also, small allocations reduce inventories firms are able to hold. Therefore to respond to customer needs, they sometime resort to using expensive air transport to procure supplies quickly.

Finally, many people are involved in administering the allocation system. Some are inexperienced and have minimal understanding of the importance of certain inputs in agricultural production. Thus, when allocating authorities have had to cut import allocations, they have made across the board reductions. For example, authorities have cut import allocations of firms importing packing materials, resulting in shortages of materials needed to package exportable commodities.

Currently, traders can obtain supplemental foreign exchange from the Export Promotion Programme Fund (EPP). A few firms indicated that they would have closed down if they had not gotten access to EPP. Some firms reported that their basic import allocations only met about 25% of their total foreign exchange requirements, with the rest coming from aid and barter deals. Thus, the EPP, aid and barter are important mechanisms that allow firms to stay in business.

b) Zambia. In Zambia, the Foreign Exchange Management Committee (FEMAC) allocates foreign exchange every two weeks to the public sector, commercial, and manufacturing firms for both PTA and non-PTA business. FEMAC allocates foreign exchange depending on availability, grants and loans. To reduce possible corruption, FEMAC members are anonymous, drawn from the key economic ministries, including Finance, Agriculture, Commerce and Industry, Cabinet, Customs, and the Bank of Zambia. Importing firms apply to the Bank of Zambia for foreign exchange, through their commercial banks. Importing firms are also required to

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<sup>9</sup>Government has attempted to redress the imbalances inherited at Independence (1980) by giving preferential foreign exchange to emergent businessmen.

submit the Kwacha cover equivalent to the amount of foreign exchange they request. The Reserve Bank submits these applications to the FEMAC Secretariat. Compared to Zimbabwe, the Zambian foreign exchange allocating system is more open, allowing individual farmers and cooperatives to apply to FEMAC for foreign exchange, including bids for equipment. In some cases, firms encourage farmers to apply directly to FEMAC for foreign exchange.

While Zambian respondents indicated that the government gives high priority to agriculture when allocating foreign exchange, its support in coordinating and implementing the policy is inadequate. For example, there is no system to regularly bring together agricultural input importers, farmer representatives, and officials in the ministries of Agriculture and Finance regularly to forecast requirements and prioritise imports.

As in Zimbabwe, traders report that foreign exchange control in Zambia has several hidden costs. First, the system involves a lot of paperwork - tax certificates; import licences; certificates of incorporation; memorandum and articles of association; trading licences; manufacturing licences; excise duty and sales tax clearance certificates; and income tax clearance certificates. To minimise capital flight through transfer pricing, FEMAC requires large companies without franchise agreements with suppliers to submit proforma invoices from three different suppliers when applying for foreign exchange. Traders reported delays receiving these from suppliers. FEMAC will also reject foreign exchange applications to import cheaper goods if they are locally produced goods. For example, an agricultural machinery in Zambia applied for foreign currency to import cheaper hammer mills from Zimbabwe, but FEMAC rejected the application because hammer mills are produced in Zambia.

Second, firms apply for foreign exchange to import agro-chemicals much before the beginning of the rainy season than necessary. This is because FEMAC may reject their applications and they need sufficient lead-time to apply a second time. This increases their operating costs (i.e., equivalent interest charges) since importers must deposit kwacha cover when submitting their applications. Also, firms reported delays by the Reserve Bank in transferring import allocations to commercial banks. Consequently, commercial banks cannot confirm importers' letters of credit, since the Bank of Zambia must deposit the invoiced amount in a U.S. bank before a confirmed letter of credit can be issued. There were also reports of further delays in processing letters of credit, and communicating with suppliers. In the meantime, suppliers may increase prices.

Third, as importing firms do not know how much foreign

exchange will be available, they cannot plan ahead for very long. Respondents suggested that FEMAC allocations favour parastatals, and Zambian-owned companies. They discriminate against foreign-owned multinational firms, even if the firms are in priority sectors such as agriculture. Firms reported that they often have to obtain support from parastatal customers, or the Commercial Farmers Bureau to convince FEMAC authorities that their application are bona fide.

Finally, respondents reported that since most donors provide aid to Zambia for importing agricultural inputs, authorities allocate less foreign exchange to agriculture.

## 2. Import licensing

Throughout SADCC, governments use import licenses to manage imports. For example, in Zimbabwe after having obtained import allocations, firms must apply for import licences to actually bring in imports. Import licensing provides a check that firms use their allocations to only import commodities for which they received an allocation, and up to the allocated amount. The problem is that the Ministry of Trade and Commerce often delays issuing import licences. Importers in Zimbabwe reported that it presently takes two weeks for firms to obtain import licenses. Procedures for obtaining import licences can be particularly frustrating when firms are seeking clearance on no currency involved licences (NCI). A representative of an agricultural machinery firm in Zimbabwe reported that even when customers prove to the Reserve Bank that they are using external foreign exchange, they must still obtain an import licence from the Ministry of Trade and Commerce.

## 3. Export licensing

Because of a lack of credit worthiness in the SADCC region, exporters spend considerable time preparing documents. Seventy percent of the surveyed firms exporting to SADCC markets reported that they spend a high proportion of their time completing exchange control forms (indicating that payment has been or will be repatriated); bills of entry export; export licences; consignment notes; duty drawback applications; packing sheets; declaration of origin forms; commercial invoices; shipping instructions; export incentives applications; and applications for export permits from the ministries of agriculture. A few firms pointed out that when one closely examines these documents, it appears that the required information could be supplied with less paperwork. Also, if one makes a mistake on the paper work, the authorities will not clear the goods for export.

Many respondents indicated that government export regulation, especially the requirement that exporters must receive payment through confirmed irrevocable letters of credit



before despatching goods to regional markets, increases the administrative problems exporters face.

Furthermore, obtaining authorisation to export controlled export commodities from ministries of trade, commerce, industry and agriculture can be very slow. Generally, SADCC governments forbid firms to export controlled export goods until firms prove that they have more than adequate stock to meet requirements of domestic markets. Delays in obtaining government clearance can result in losses of export orders. Agro-chemical importing firms in Zambia felt that Zimbabwe is the most difficult country from which to buy agro-chemicals because of cumbersome government regulations. Also, the regulations often change rapidly, making it difficult for firms to follow the current regulations.

#### 4. Border customs procedures

Firms face widely varying, and cumbersome border customs formalities when cross-shipping goods. Usually the goods pass through numerous borders before reaching their destinations, requiring truck drivers to carry numerous papers for clearing goods at borders. In addition, SADCC countries continue to require transporters to pay road tolls, tariffs, and duty charges (often in hard currency) before allowing them to proceed. For example, to transport a truck load of goods from Malawi into Tanzania, the shipper must pay a road fee of US\$ 1,700 to transit the country (Commerce, 1987).

#### 5. Domestic price controls and differing pricing policies

Another obstacle to intra-SADCC trade is the wide variation in national pricing policies. Most SADCC governments control the prices of off-farm produced agricultural inputs and administratively determine the foreign exchange rate.<sup>10</sup>

a) Price controls. Observers have suggested that the system of controlling prices through mark-ups encourages agricultural input firms to be inefficient, as those firms with high total factory or landed costs make greater profit than lower cost producers (Pakkiri, Stoneman and Davies, 1982). While several agricultural input firms acknowledged the validity of this argument, they likewise argued that suppliers import and sell different types of inputs, and there is competition which serves to keep prices low. Often, the inefficiency results from inadequate import allocations which prevent agricultural input

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<sup>10</sup> Even the Botswana government controls wholesale and retail prices by setting maximum mark-ups firms can charge, ranging from 7.5% on essential commodities to 30% for non-essentials.

firms from holding inventories, requiring them to import inputs as demand arises, often using emergency methods. In addition, established agricultural input firms argued that they do not just import and sell, but also provide a wide range of backup services, including spare parts supplies, repair and maintenance, research and development, extension, and credit - often to outerlying areas. The mark-ups should assure enough profit to enable firms to expand, and increase services. Yet, most firms indicated that they were operating at a loss on government controlled mark-ups, and as a result, they were being forced to reduce services.

b) Currency Overvaluation. The existence of overvalued national currencies, which affect the price of goods, also affects trade flows. For example, maize is smuggled from Zambia to Zaire and Namibia because traders can obtain better prices in these markets (Times of Zambia, 1987). Also, the Zambian Government's fertiliser subsidy policy results in fertiliser being smuggled to Malawi.

#### 6. Centralised purchasing

The dominance of a few parastatals in regional markets, often purchasing agricultural inputs in bulk, exacerbates problems of limited supply capacity. Traders pointed out that most manufacturing firms have not been export-oriented. As a result, few regional suppliers have sufficient capacity to produce for a single large-scale buyer. If purchases were spread out among a larger number of buyers, then producers could supply the smaller quantities. In a similar vein, agricultural machinery firms in Zimbabwe reported that aid schemes strain firms' cash flow because aid schemes involve purchasing a large volume of inputs at one time. Thus, currently the limited technological development to supply makes the logic of economies of scale in SADCC agricultural markets counterproductive. There is a need for importers to initially nurse suppliers.

SADCC regional importers often incur limited supply capacity problems on international markets as well. This is because they deal with small volumes which are uninteresting to external suppliers.

## V. FACILITATING INTRA-SADCC AGRICULTURAL TRADE: TRADERS' RECOMMENDATIONS

The survey has identified a large number of barriers to increasing intra-regional agricultural trade. Policies and practices represent an especially important opportunity to expand trade because it is within the power of governments to change them. But this is not to imply that such changes will be easy to implement. The process of incrementally expanding intra-SADCC agricultural trade will increase opportunities for specialisation and scale economies, leading to increased productivity, incomes and effective demand, and more trade. Thus, increasing intra-SADCC agricultural trade can be viewed as a partial solution to the more difficult problems of high transport costs, lack of effective demand and limited capacity to supply markets.

Traders suggest that one way of achieving multilaterally balanced intra-regional trade is by negotiating bilateral reciprocal trade agreements as an interim measure. But to succeed in these, governments must involve the business community in all deliberations and counteractions in reciprocal trade agreements. Often, only government officials are involved in trade negotiations, and businessmen with practical trading knowledge, authority, and funds are excluded. As a result, little progress is made. In addition, traders suggest that SADCC governments must give greater incentives to exporters and introduce export credit insurance schemes.

The history of trade between Botswana and Zimbabwe shows how much can be done to expand trade under the right environment and policies. In 1986, the total volume of trade between the two countries was Z\$73-78 million (Southern African Economist, 1988). This is about half the total value of all PTA trade going through the PTA clearing house (PTA Clearing House, 1987).<sup>11</sup> Furthermore, the trade is equally balanced with Zimbabwean exports to Botswana, even though Botswana is a small economy. The main mechanism facilitating trade between these countries is the Open General Import Licence which allows traders to buy and sell without import licences, and at reduced duty. Botswana imports mostly sugar from Zimbabwe. Zimbabwe imports mostly copper and nickel matte. Traders suggest that opportunities should be explored to use this mechanism to diversify the current narrowly based trade patterns in the region.

Since most SADCC countries have foreign exchange problems, the limited available foreign exchange must be used efficiently. Because SADCC countries are expensive sources of many imports, expanding intra-SADCC trade will not benefit member states if

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<sup>11</sup> In 1986, approximately 60 million UAPTA ( Z\$141 million) trade was financed through the clearing house.

they have to settle transactions in hard currency. Consequently, respondents believe that mechanisms must be established to promote multilaterally balanced intra-regional trade, involving trade in both goods and services. This need not be at the expense of SADCC trade with the rest of the world, because more foreign exchange will become available to member countries to increase trade in commodities not available within the region.

#### A. Recommended Policy Changes

Traders were asked what recommendations they would make to SADCC governments to expand trade within the region. These are discussed below.

##### 1. Bilateral reciprocal trade agreements

To expand trade, traders believe that governments have to harmonise existing policies and practices, by relaxing the numerous restrictions and removing much of the "red tape" on imports, exports, and financing intra-SADCC trade; tariffs; travel; and communications through bilateral trade agreements.

##### 2. Simplify administrative procedures

Traders recommend that the first step governments should take to promote intra-SADCC agricultural trade is to simplify import and export procedures by reducing the number of forms that firm owners must complete and by reducing the number of government agencies that must grant clearance. Also, customs formalities between SADCC member states need to be streamlined. Traders argue that introducing Open General Import Licences within the region would significantly facilitate intra-SADCC trade. For example, a major problem with the PTA arrangement is that firms need to travel to identify potential suppliers, and inspect product quality. If countries liberalised trade, firms would take products on a trial basis, without having to first travel to inspect products and to obtain import licences from the Ministries of Trade, Commerce, or Industry.

##### 3. Strengthen local currency-based mechanisms

While potential intra-SADCC trade is restrained by foreign exchange shortages, respondents assert that SADCC governments could do much to increase trade by scrapping quotations and payments in foreign exchange, and working towards using national currencies. Most respondents recommended that SADCC governments need to strengthen the PTA system through adequate funding and sending all PTA trade through the clearing house. Some traders point out that governments in the long-term need to legalise financing intra-regional trade with national currencies obtained at market prices (i.e., national currencies should be freely available in shops within SADCC states). A few respondents

recommended using extended letters of credit, barter and countertrade to ease foreign exchange shortages.

#### 4. Give better terms of credit

Respondents believe that SADCC governments need to remove controls on exporting firms supplying credit facilities to importers. Also, they suggest that SADCC governments need to give each other better terms of credit (i.e., low interest and deferred payments).

#### 5. Reduce tariffs on SADCC commodities

Respondents recommend that governments create incentives for firms to purchase within SADCC by reducing tariffs on commodities available within the region, but which some countries import from external sources; and increasing tariffs on imports from non-SADCC sources. To make SADCC products more competitive, traders also suggest that SADCC governments need to remove duty and taxes on imported raw materials used for producing exportable goods. A few, however, recognised that this may have an adverse effect on government budgets.

#### 6. Promote intra-regional contacts

Traders surveyed indicate their belief that governments need to make it easier for SADCC businessmen to travel within the region by allocating the business sector more foreign exchange; making reciprocal hotel arrangements for traders to pay in local currency, and at reduced rates; removing visa restrictions within SADCC; and including airport departure taxes on the PTA list or allowing businessmen to pay airport tax in national currencies.

Traders likewise suggest that SADCC countries strengthen communication between member states (i.e., telephones, mail, telexes, and mass media). For example, to enable SADCC firms to advertise in other member states, governments should lift restrictions on firms transferring money to fund advertising. Also, it is suggested that SADCC governments need to develop infrastructure to facilitate the exchange of market information between firms. This may facilitate the practice of buying by description rather than by inspection and thus would reduce transaction costs of trading. Ideas are that this could be achieved by encouraging firms to establish a SADCC Chamber of Commerce, and SADCC trade journals. Traders also indicate that governments could ease access to market information by promoting an annual SADCC trade fair that moves throughout SADCC, spending about a week in each country. Although the existing PTA trade fair is quite useful, traders identify serious time constraints inspecting displayed commodities and negotiating transactions.

## 7. Give greater export incentives

Exporting firms in Zimbabwe suggest that the government give greater incentives to firms exporting to regional markets by allowing a percentage of export earnings to directly accrue to exporters in foreign exchange, after deduction of the present export incentive. Exporting firms in Botswana argue that the government needs to introduce an export incentive scheme because although Botswana currently has adequate foreign exchange, in the future it may face shortages.

## 8. Allow SADCC country firms to open branches in member countries

Several traders recommend that SADCC governments should allow member country firms to open branches in their countries.

## 9. Introduce export credit insurance

Respondents believe that SADCC governments need to investigate the potential benefits of introducing export credit insurance schemes, since most SADCC countries have payment problems. For example, an exporting firm in Botswana indicated that it would substantially increase its exports if the Botswana government guarantees say 90% of the value of exports at affordable rates in the event of an importer default.

## 10. Avoid duplication of industries

Traders assert that the availability of cheap labour and transport logistics provide a good basis for local industrial production and there is the demand for this in the region. They argue that manufacturing projects for which there are no regional suppliers currently should be identified and established with a view to exporting within the region competitively. Traders recommend that member countries should avoid duplication of industrial projects within the region in order that it be easier to reach needed economies of scale in production and marketing.

Traders feel that firms can only trade successfully and profitably if they produce good quality products on a sustainable basis at affordable prices. They feel that SADCC governments dictation on wages and prices through price controls is counterproductive to this.

## B. Recommended Changes in Trader Behaviour

Traders were asked what recommendations they would make to other traders to expand SADCC trade. The following is a discussion of these.

### 1. Adopt aggressive marketing methods

One reason why intra-SADCC trade is low is the lack of market information on goods available as well as their prices within the region. Traders recommend that traders as a group need to be aggressive and offer the commodities to each other by advertising in member countries. Traders strongly suggest that inquiries must be promptly replied to, and export orders followed-up. To date intra-regional marketing has been given low priority, since firms have been able to dispose of their limited production locally.

### 2. Establish representation in member countries

To solidify contacts in the business community, traders recommend that firms establish representation in member countries. Traders feel that this will ease problems SADCC country firms face in marketing their products in member countries and, at the same time, this will provide a mechanism for disseminating market information.

### C. Obstacles to Effective Policy Change

According to firms interviewed there are four principal obstacles facing SADCC governments in promoting intra-regional agricultural input trade. First, each country aspires to be self-sufficient. For example, most SADCC member states want to have their own agricultural machinery, fertiliser, seed, agro-chemical, and food processing industries.

Second, all SADCC governments are trying to put their economic houses in order, and appear to be more concerned with national rather than regional development. Expanding domestic production is seen as a way to increase employment and stimulate development.

Third, traders suggest that differences in the levels of industrialisation between member states will result in imbalances if intra-SADCC trade were liberalised, leading to resource transfers from the less industrialised to the more industrialised member states. Respondents consistently assert that Zimbabwe is likely to benefit most compared to its regional trade partners. Yet, respondents believe that the Zimbabwean government is reluctant to reciprocate (i.e., wanting to export only and not interested in importing from SADCC).

Fourth, a few traders argue that expanding intra-SADCC agricultural trade will reduce employment in some member countries. Yet, many respondents point out that this is not necessarily so. The people who were formerly employed in industries that existed under a policy of impeded trade could be employed in industries that would expand under a freer trade

regime. Thus, the view is clearly that although the most important interests for anyone are vested in one's country, SADCC governments will have to adopt more of a regional perspective if trade is to be expanded. Doing so may promote development and income-growth in each country more rapidly than pursuing independent national policies.



## VI. SUMMARY AND CONCLUSION

Many analysts have argued that the potential for expanding intra-SADCC agricultural trade is limited. This is mostly because they have conceptualised intra-SADCC trade in a static, rather than a dynamic context. There are significant differences between the static notion of comparative advantage - that differences in comparative costs of production among people, firms, areas and countries at any one moment in time determine trade - and the dynamic notion, where the process of trading will itself increase opportunities for different groups to specialise and to take advantage of economies of scale and improved capacities to produce products, thereby increasing productivity, incomes and effective demand. Discussions with both key informants and traders interviewed in this study reveal that a major reason for the low productivity in SADCC national economic systems is a lack of effective demand. This means that SADCC agricultural input and product markets are too thin to support levels of specialisation and scales of production which result in high productivity. The thinness of SADCC agricultural input and product markets does not suggest a protectionist policy among SADCC economies. Rather, it suggests the opposite. To expand the potential market and effective demand, SADCC member states need to reduce barriers to starting a dynamic trade process.

The overall objective of this study was to go to traders themselves to elicit their views on what is needed to get trade moving along a more dynamic growth path. This was accomplished through direct contact with 85 agricultural commodity import and export firms, and parastatals in three SADCC countries who participated in a trader survey over an 11 month period. Information was also collected through key informant surveys of ministries of agriculture, trade, commerce and industry, finance and economic planning, donor agencies, banks, credit insurance agencies, and trade associations connected with SADCC's regional and international trade in agricultural products.

Firms interviewed in this study indeed report a wide range of farm inputs and products which they believe have significant potential to expand intra-SADCC trade. Trader responses suggest that there is significant potential to expand intra-SADCC trade in products based on appropriate technology. The industrial world has little incentive to incur investments necessary to develop specialised technology appropriate to the SADCC region. Thus, firms interviewed believe that a potential for expanding intra-regional trade lies in identifying what technology is appropriate, and developing economies of scale in the production of these goods. Agricultural input trade is especially important - both because of its potential to increase on-farm production (including reducing post-harvest food losses) and as a way to increase off-farm employment. Long-run food security will come from a combination of increased productivity in farming and from

productive off-farm employment.

To remain on the export market, SADCC countries have to keep the costs and prices of their goods within a competitive price range. This means that farm input costs need to be reduced. Agricultural input costs can be reduced if suppliers obtain greater throughput and larger turnovers. Several respondents indicated that producers need to better access the regional market in order to achieve production volumes that keep costs down. Given continuing foreign exchange shortages, traders feel that SADCC countries need to undertake import substitution in the agricultural input industries and food processing industries. In the past, such projects have been costly as SADCC countries undertook them under protected conditions and limited national market scales. Thus, expanding intra-regional trade could increase competition, and enable firms to attain greater economies of scale and more competitive costs.

Trader responses suggest that there are significant opportunities for specialisation if SADCC states can integrate their markets. Within the broader market, different countries could be responsible for producing different commodities and exchange for commodities which they themselves do not produce. For example, Zimbabwe could be responsible for producing agricultural machinery and equipment for the whole region; Zambia could be responsible for producing the electrical goods for the whole region; and Malawi could be responsible for producing processed fish for the region. Although it makes sense for a country to be self-sufficient to a level that it can, it is not a good approach to think that every country can be self-sufficient in every commodity.

SADCC countries would continue to obtain from off-shore sources commodities not locally produced. If the exchanges between different SADCC countries balance multilaterally, this trade would be mutually beneficial. Although member countries may pay for the goods they import in cash, eventually they will receive the cash as payments for their exports.

Some of the trader-perceived barriers to increasing intra-regional agricultural trade - policies and practices of SADCC governments, and high transactions costs - appear to be easier to deal with in the short-run than problems of the lack of effective demand and limited capacity to supply markets. Policies and practices represent especially important opportunities to expand trade because it is within the power of government to change these. Promoting some intra-SADCC agricultural trade by reducing constraints arising from government policies and practices will increase opportunities for specialisation and scale economies, leading to increased productivity, higher incomes and effective demand, and more trade.

Respondents indicate that the history of trade between Botswana and Zimbabwe shows how much can be done to expand trade when the appropriate environment is created and policies are implemented. Many respondents recommend that as most SADCC countries have foreign exchange problems, they must use the limited available foreign exchange much more efficiently.

Because SADCC countries are expensive sources of imports, expanded SADCC trade will only benefit member states if they can settle transactions in national currencies. Thus, respondents believe that mechanisms must be established to promote multilaterally balanced intra-regional trade. This will have to involve trade in a broader sense, including services. Traders suggest that one practical interim measure to stimulate trade would be organising reciprocal trade through bilateral relationships. Traders believe that for this to succeed, governments must involve the business community in all deliberations.

Traders recommend that traders need to be aggressive and offer the commodities to each other by advertising in member countries, and to establish representation in member countries.

Finally, firms interviewed believe that to expand trade, governments will have to better harmonise existing policies and practices by relaxing the numerous restrictions and removing much of the "red tape" on imports, exports, and financing intra-SADCC trade; tariffs; travel; and communications. In addition, the firms believe that SADCC governments need to give greater export incentives to exporting firms; and to introduce export credit insurance schemes.

There is the argument that cooperation and trade will lead to lower employment within countries. But this is not necessarily so. The people employed in other industries under a policy of impeded trade could be employed in industries which would expand under "freer" trade. There is also the argument that as Zimbabwe is more industrialised in the regional context, other countries will experience difficulties importing from Zimbabwe because they have nothing to export. Consequently, some traders feel that other SADCC countries may lose out. Most respondents, however, argue that although the most important interests for anyone are vested in one's own country, people should always think of other countries as well to obtain better results for all.

Accompanying the increase in intra-SADCC trade will be development and growth. SADCC countries do not just want to trade for political reasons, although this is also desirable. They want to have growth as well. Traders responses suggest that this can be done.

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## APPENDIX

### Transaction Costs

The transaction costs which importers and exporters interviewed in this study reported they need to cover to break-even on a trade were: freight charges, including delays queuing up for goods to be transported, and in transit losses due to mishandling, theft, and pilferage; insurance charges; import and export licence fees (levies); import duties, and sales taxes; documentation, and clearing charges; agency fees and commissions; bank interest charges, financing and credit costs, including delays in getting paid; local assembly and formulation costs; handling, technical storage, and distribution expenses; packaging, and labelling expenses; on-shelf stock losses due to shelf-life, spillage and theft; communication, including time spent on the phone fire-fighting; profit forgone on produce not exported or imported because of bureaucratic "red tapes"; risks of the inflationary trends of the markets, recession, and devaluation; making up for the lack of foreign exchange; research and laboratory expenses; after sales service expenses, including travelling expenses of sales representatives, and warrantee work; general back-up services, including expertise in selling the products, workshop stock-control, and producing literature to ensure correct use; business trips overseas and follow-up costs; and general overheads (e.g., staff salaries and wages, rent, electricity and water, accounting services, employee facilities, amortisation on capital and equipment, long-term dividends to shareholders, and administration costs).



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